Transformation of the Welfare State

By

Neil Gilbert

Prepared for presentation at the Conference on Political Economy and Social Policy of Western Europe at Indiana University, Bloomington – Nov. 11, 2005
Transformation of the Welfare State

Over the last decade arrangements for social protection in most, if not all, of the advanced industrialized nations have undergone a series of changes. Some see these changes as amounting to no more than a marginal adjustment in the borders of the welfare state – a “fine tuning” of existing policies. Others, including myself, see these changes as major revisions in the guiding principles and philosophy that are transforming the essential character of modern welfare states. This is not to say that the modern welfare state’s programs of social security, health, social services, unemployment and disability insurance are being demolished – they are being reshaped. To transform is not to dismantle or obliterate institutional arrangements for social protection -- what is being altered involves the basic framework for social policy on which the most progressive welfare states were modeled.

In my talk today I would like to analyze some of the reasons for this fundamental shift, its substantive character and a few of the important issues that are raised by these changes. This is a large order and the time allotted is short – thus, I hope you will bear with me if I summarize some broad trends, which I have more thoroughly documented elsewhere. (Gilbert, 2001, 2002, Gilbert and Van Voorhis, 2003; Gilbert and Parent, 2004).

First let’s examine some of the social and economic pressures for change.
The period from 1960 to roughly 1980 is sometimes referred to as the “Golden Era” of welfare state expansion. According to OECD accounts social welfare expenditures nearly doubled from an average 12.3 to 23.3% of the GDP among the 21 member nations of OECD at that time.

(#1) After 1980 the rate of growth slowed and here we see that since the early part of the last decade spending leveled off and actually began to decline a little by the mid-1990s. We all recognize that direct social expenditures are a crude measure – they ignore taxes on consumption of benefits, tax expenditures, regulatory transfers, and voluntary transfers. And I would not make too much out of the slight decline in spending. The main point here is that is looks like social spending has hit a ceiling. This is creating a tremendous compression in the welfare state as spending levels off while demand continues to rise, particularly in response to the aging of the population in the OECD countries.

(#2). We can see in this second table that the dramatic rise in aging has just began and will take off at end of this decade, so that between 2001 and 2030 the ratio of the number of people over 65 to the number of people employed will virtually double, climbing from 1 retired person for every 3 workers (a ratio of .33) to 1 retired person for every 1.6 workers (a ratio of .63). Although many of the OECD countries are raising the standard age of retirement in an effort to mitigate the crushing costs of aging, since 1970 the labor force participation rates for men over 65 have declined (20%) and declined substantially for men aged 60-64. Although there is much variation among countries. In 1998, for example, 70% or more of those aged 55-64 did not participate in the labour force in Hungary, Belgium., Luxemburg, Italy and Austria.
Aging is not the only demographic factor that is increasing demand – the growth in single parent families also necessitate various sorts of public aid. While demand for social spending continues to push upward, the constraints on additional spending are tightening in response to the pressures of the global economy, which have magnified interdependencies, heightened competitive markets, and shrunk time and space. There are differences of opinion about what exactly the process of globalization represents and its implications for the future of state sponsored social protection. (It might have contradictory tendencies) However, many analysts I think would agree with Guy Standing’s assessment that globalization has intensified pressures to scale back labor rights and welfare benefits. (Also Fritz Scharp).

In addition to what might be considered large-scale structural factors such as aging and the globalization of the economy, there are also socio/political pressures for change emanating from a shift in normative views about the consequences of social policies and the proper relationship between the state and the market. The weight of accumulated experience gained over the decades of welfare state growth has told us much about the unanticipated consequences of social benefits, particularly their disincentive effects. The idea that generous welfare benefits might inhibit one’s inclination to work was once viewed as heresy by welfare state advocates – they charged it was a case of “blaming the victim.” Yet the same idea, that welfare benefits produce “poverty traps” or “enforced dependency” – prudently worded not to blame victims -- became the received wisdom of the late 1990s.
Finally, the collapse of the command-economy of the USSR has raised to record levels the stock of capitalism’s public approval in the marketplace of ideas, which has been accompanied by a rising faith in the virtues and abilities of the private sector. Thus, at least four lines of influence, representing complex and multiple forces lend impetus to the transformation of the welfare state. It is not just demographic forces, or tax and spending ceilings alone, or globalization or the normative changes shaped by experience with social policies and the rising faith on the market economy that account for the fundamental changes in the welfare state – it is a combination of these forces. And what gives these pressures particular weight is that in different ways they all push away from the progressive welfare state model.

What are the directions of change?
First, it has become almost universally accepted that social policies heretofore providing”passive” income supports to unemployed people should be replaced by measures designed to promote employment. Work-oriented reforms of public assistance, disability, and unemployment programs fall under the broad heading of “workfare.” Among these initiatives the reform of public assistance programs in the United States are among the most far-reaching and stringent. Here the long-standing AFDC program of public assistance was replaced by the Temporary Assistance to Needy Families program, which introduced many types of incentives and sanctions, required that welfare beneficiaries go to work within two years and limited their lifetime access to public assistance benefits to five years. The establishment of TANF was accompanied by a remarkable decline in the welfare caseload, which plunged by over 50% from a historic high of 5.1 million families in 1994. Precisely how much of this caseload reduction
was due to the policy reforms and how much due to the draw of employment opportunities during a period of sustained expansion is hard to untangle. (see, chapters in Gilbert and Parent, 2004)

(#4) Although the U.S. reforms of public assistance were as I said rather stringent, the basic direction of these measures closely parallels the growing emphasis on work-oriented reforms in most of the other OECD nations. Recognizing that “data” are not the plural of anecdote – let me offer a few quick anecdotes just for flavor. The first is from a US textbook on social welfare policy; the second is the motto of the Dutch purple coalition’s (Red -reds and blue -liberals) “platform on which they were elected in mid-1990s (initiated the 1996 reform of social assistance); the third is from the 1998 Green Paper on Welfare Reform issued by the New Labour government.

(#5) Indeed, over the last decade public assistance, disability, and unemployment policy reforms have followed a general pattern of change along four dimensions: restricting access and accelerating exit, segmentation of participants, introduction of contractual obligations, and application of diverse incentives.

- Denmark, UK, Finland, Spain and the Netherlands have extended the period of employment required to access benefits
- Sweden, Finland Belgium and France have introduced or extended waiting periods for benefits.
- Denmark, Norway, Italy, Netherlands, and Germany among other have shortened the
maximum duration for receiving unemployment benefits.

- U.S., Norway, and the Netherlands among other have introduced more rigorous examination to qualify for disability benefits
- Within the last month Germany has significantly reformed unemployment insurance, shifting what was long-term (over 1 year) benefits into the system of social assistance (at a much lower benefit rate)
- Almost everywhere “work contracts” are being employed – called activation or action plans.

(I’m sure there are counter factual examples – but the trend is clearly in the above direction)

The emphasis on work-oriented reforms is one of four critical dimension in the transformation of the welfare state. The second dimension involves the increased targeting of benefits. This is reflected not only in the upswing of means-testing (#6), but in other reforms, which include the narrowing of diagnostic criteria for disability, and the lifting of the age of retirement.

The third dimension involves the expanding use of the private sector for the delivery of social benefits. As shown here (#7) up until the mid-1980s for-profit providers were almost absent among residential treatment facilities for alcoholics in Sweden – by 1997 they have come to dominate the field. A dramatic shift, but in a very small program. On the larger stage, over the last six years Sweden and Denmark have introduced mandatory private accounts into their old age pension systems. The Netherlands privatized sick leave care for workers in 1996 and Germany has experienced an extraordinary increase in for-profit providers in the realm of long-
term care services. Finally, there is the swing from social rights to responsibilities.

(#8) The overall change is from the guiding principles of progressive policies that were framed by a universal approach to publicly delivered benefits designed to protect labor against the vicissitudes of the market and firmly held as social rights to policies framed by a selective approach to private delivery of provisions designed to promote labor force participation and individual responsibility. The emerging emphasis on individual responsibility (to work and be self-sufficient) and the tightening of eligibility criteria for social benefits have eroded the social rights of citizenship – rights that T.H. Marshall saw as a defining element of citizenship that fostered a common sense of belonging and social cohesion. As Marshallian solidarity – the cohesion of shared rights -- is on the wane, what we might call Durkheimian solidarity, the cohesion of membership in civic associations, which reinforce shared values and civic duties – is waxing with new energy. The transformation, as I see it, is from a welfare state to an enabling state, which functions under the guiding principle “public support for private responsibility.” Within the new framework social welfare policies are increasingly designed to enable more people to work and to enable the private sector to expand its sphere of activity.

To suggest that there is a convergence toward the Enabling State, is not to say that all the systems for social protection will be exactly the same. Of course, there will be assorted renditions of the Enabling State. Freud’s axiom concerning the “narcissism of minor differences” suggests that the closer nations come to resemble each other the more they magnify minute dissimilarities, as a means to reinforce social cohesion. If this proposition is correct, with
English rapidly becoming the lingua franca of the European Union and the Enabling State identified most closely as an Anglo-American construct, policy makers from other countries are likely to go to great lengths to differentiate their social welfare initiatives from those of the United States and the United Kingdom. The Nordic countries will have their version of the Enabling State, as will France, Germany, and others, including, perhaps, the Eastern European countries. But when one peels back the outer layers of rhetoric and sorts through the different measures to advance privatization, targeting, employment, and individual responsibility, we arrive at a common core of market-oriented social policies that in essence represent the triumph of capitalism. This might be seen as a paradigm shift recasting some of the basic purposes of the welfare state — from social protection to social activation and from income maintenance to social inclusion.

There are several implications of this analysis. First, in matters of social welfare policies, it is increasingly difficult to distinguish substantive differences between political left and the right. The political compass has lost its conventional bearings. Where is the left? In the 2000 United States presidential campaign Republicans wanted to expand private activity through the use of educational vouchers and a shift in social security financing that (the Commission co-chaired by Moynihan proposed) would allow individuals to invest 2 ½ percent of their contributions in private equity accounts. Democrats opposed these measures. At the same time, the privatization of 2 ½ percent (or 14% of total) of social security contributions and the use of educational vouchers (75% of public ed. costs, which today covers independent schools that include more than one quarter of a million people) have been approved in Sweden under a
Social Democratic regime traditionally to the left of both parties in the U.S.

Second, an inspirational political discourse of reform has emerged, which emphasizes *activation*, *social inclusion*, *empowerment*, and *social responsibility* – these terms represent several ways of conveying to citizens how important it is that social policies be designed to get you back to work as soon as possible.

(#9) Finally, there are broader, one might say philosophical concerns about the implications of this shift toward the Enabling State. Here I speak as someone who has great appreciation for the free market as a marvelous mechanism for production and for the satisfaction of material wants. Market-oriented social policies inspired by concerns for competition, choice, productivity, and rational weighing of measurable costs and benefits tend to glorify paid employment and to drive the provision of social care and protection into the domain of commercial life. In this context, the cause for concern about the emergence of the Enabling State is not so much that it promotes work-oriented policies, limits entitlements and heightens public support for private responsibility as that in so doing it bows too deeply as a handmaiden to the market. As it has evolved since the early 1990s, the Enabling State generates no counter force to the capitalist ethos, no larger sense of public purpose that might be served beyond increasing productivity, no clear ideal of public service and dwindling support for the goals of social protection and security. When the habits and attributes of commercial life permeate the other spheres of human activity (family life, mutual aid, public service) the economic order engulfs society. I would close with the caution that unless corrective measures are taken, in the end what the Enabling State may enable most is
a market-dominated society.